

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350

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PUBLIC SERVICE COMMISSION

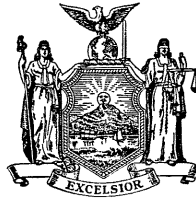
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January 5, 2007

RECEIVED

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REGULATORY BUSINESS
DEPARTMENT

Mr. Kevin H. Doherty
Manager of Rates
United Water
200 Old Hook Road
Harrington Park, NJ 07640

SUBJECT: United Water New Rochelle (UWNR) – Delaware Interconnection Project
(DIP) Surcharge – Case No. 04-W-1221

Dear Mr. Doherty:

In Case 04-W-1221, the Commission approved a multi-year settlement agreement (Agreement) which provided that a surcharge be initiated to recover the pre-tax return on construction costs related to the DIP. The DIP surcharge is to be modified semi-annually to reflect the construction costs and AFUDC for the preceding six-month period.


On November 30, 2006 the company provided documentation to support additional project expenditures of approximately \$10.776 million incurred between August 1, 2005 and October 31, 2006 and calculated that the resulting DIP surcharge would be increased from 4.12% to 6.86%.

Staff reviewed the company's filing regarding the construction work in progress on the DIP including: project detail reports, vendor invoices, and the method for calculating the surcharge amount, and found it to be in compliance with the specific DIP surcharge requirements. As a result the company may increase the DIP surcharge to 6.86% starting with the January 15, 2007 billing cycle, as requested.

Finally, it should also be noted that the DIP surcharge is subject to an annual audit and reconciliation, which should be filed with the Commission within 60 days of the end of each rate year. The DIP surcharge is also subject to any modifications that may result from the ongoing proceeding (Case 06-W-1016) to examine the size, cost and financing of the DIP.

If I can be of further assistance, please let me know.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bruce E. Alch".

Bruce E. Alch
Principal Engineer
Water Rates Section
Office of Gas and Water

cc: M. Gennari, UWM&S
W. Hill, UWM&S
A. Gordon, Chief, Water Rates Section